

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Update on State Legislation ITEM NUMBER: 8

ATTACHMENT(S): 2

ACTION: X MEETING DATE: April 1, 1998

INFORMATION: PRESENTER: Ms. DuCray-Morrill

SUMMARY

Staff has prepared the attached analysis and recommended position on the following measure for the Board's consideration.

<u>Bill Number</u>	<u>Author</u>	<u>Subject</u>
SB-1945	Karnette	Home Loan Program (Attachment I)

The Assembly Public Employees Retirement and Social Security (PER&SS) Committee has scheduled an informational hearing on Wednesday, March 25, 1998 to discuss divestment. Authors will be presenting three bills, AB-1679, Perata, AB-1744, Knox, and AB-2357, Olberg. The first two bills are tobacco related divestment bills and last one, AB-2357 is music industry related. Pro and Con testimony will be taken on each bill in turn. At the conclusion of the discussion on the specific bills, STRS and PERS will be provided an opportunity to present information on divestment in general, not specifically related to the individual bills. The intent of the informational hearing is to provide a forum other than the regularly scheduled committee hearings in which to air some of the concerns and therefore shorten the debate that could occur in the regular committee hearing.

MONTHLY STATUS

For your information, Attachment II is a status report that represents the progress of investment related legislation to date. Ms. DuCray-Morrill will provide a verbal update at the meeting if necessary.

STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 1945, Senator Karnette (Introduced 2/19/98)

Position: Co-Sponsor (Staff Recommendation)

Proponents: Author

Opponents: Unknown

SUMMARY

SB-1945 establishes a 100% financing member home loan program to assist STRS members in obtaining homes in California. Under the bill, STRS can loan up to 5% of the home's purchase price/value, using up to 50% of the member's/buyer's retirement contributions as collateral. This personal loan, combined with a 95% mortgage loan, provides 100% financing. The bill limits loan amounts to the fair market value of the property, not to exceed \$350,000. Under SB-1945 the loans are authorized by the Teachers' Retirement Board (TRB), which may establish terms and conditions of the loans.

HISTORY

AB-1872 (Chapter 392, Statutes of 1984) created the STRS Home Loan program and AB-1949 (Chapter 69, Statutes of 1986) enabled STRS to implement the program.

AB-2890 (Chapter 408, Statutes of 1988) authorized the TRB to add owner-occupied two to four family dwellings to the STRS Home Loan program.

SB-1171 (Chapter 543, Statutes of 1991) clarified the eligibility of STRS disabilitants and inactive members to participate in the STRS Home Loan program.

AB-2282 (Elder, 1992), vetoed by the Governor, would have required the TRB to conduct a study on the feasibility of offering members low interest rate home loans subsidized by trust fund monies.

CURRENT PRACTICE

STRS currently offers home loan financing to assist eligible members to obtain homes in California. The member home loan provisions specify, in part, that loans shall not be made at below-market rates.

DISCUSSION

SB-1945 would allow a greater number of members to purchase a home. Regardless of the economic forecast, the primary challenge to home ownership continues to be securing a downpayment. Inasmuch as retirement contributions are an "asset" of each member, it is appropriate for a member to use them as collateral for a home loan. In terms of the STRS Mission, this bill will demonstrate the System's genuine interest in members, prior to retirement.

SB 1945 would provide that the TRB shall include a procedure for 100 percent financing for the purchase of a single-family dwelling unit in accordance with specified criteria including a provision that the personal loan secured by the accumulated retirement contributions and vested accrued benefits in the member's individual account may not exceed 50 percent of the current value amount of the accumulated contributions. The pledge of security under this section shall remain in effect until the loan is paid in full.

SB-1945 allows the TRB, in the event of a default on the personal loan secured by the member's contributions, to deduct an amount from the member's contributions on deposit and adjust the member's accrued benefit, up to the amount pledged as security, prior to making any disbursement of retirement benefits.

The bill allows the secured personal loan to be made available only to currently employed members who meet eligibility criteria.

Under the bill, appropriate interest rates shall be periodically reviewed and adjusted to provide loans to members consistent with the financial integrity of the member home loan program and the sound and prudent investment of the Teachers' Retirement Fund (TRF).

Home loan financing is not a new concept or undertaking for retirement systems. Since November of 1994, the California Public Employees' Retirement System (CalPERS) has been offering 100% home loan financing. As of December 31, 1997, CalPERS processed 5,938 "personal loans," totaling \$34.6 million, or 45.5% of CalPERS' total loan portfolio.

Loan delinquency is a reality of every loan program. The loan delinquency rate for the personal CalPERS loans has been 6.69%. The delinquency rate for the mortgage loans in the CalPERS Home Loan Program is 4.36%.

STRS staff predicts a lower delinquency rate among its participating membership because STRS members are college-educated and typically have more stable employment than some CalPERS categories. STRS Member Home Loan defaults have normally been below 2%. In the event of a member's default, STRS would foreclose on the home and deduct the 5% personal loan from the member's retirement contributions. If, following foreclosure proceedings, the member borrower did not have sufficient equity in his/her home, the chances for a financial loss are greater. Even with the risk of default to STRS and the members who would participate in this Program, staff believes it remains a prudent investment and an increased benefit to the membership. The projected default rate is too low to justify opposing this amendment.

In addition, staff recommends the bill be amended to further expand the current Program to allow members obtaining their second home loan through STRS to qualify for the 100% financing program. Members are currently limited to an 80% loan for second and subsequent loans through the STRS program.

Staff is also recommending an amendment to allow the current Program to offer a 90% loan for refinances. Again, the current Program limits refinance loans to 80%.

An additional amendment recommended by staff is to allow members to apply for these loans through STRS correspondent agents or directly from STRS. This would increase the service to membership in support of STRS goals to increase benefit and service delivery.

These amendments are needed to increase marketability and competitiveness of this Program for STRS members.

FISCAL IMPACT

Program - No fiscal impact.

Administrative - SB-1945 provides that the administrative costs of implementing the bill shall be paid by participating members and that these costs may be included in the loan amount.

POSITION

Co-Sponsor - Staff recommends that the Board co-sponsor SB-1945, which would allow for 100% home loan financing for members, improve the loan program created in 1984, and greatly assist STRS members in obtaining home loans in California.

Staff strongly supports the increased benefit provided in the bill as introduced and the proposed amendments.

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LEGEND OF ABBREVIATIONS

P = PROPONENTS O = OPPONENTS

<u>ABBREVIATION</u>	<u>ORGANIZATION</u>
AALA	Associated Administrators of Los Angeles
ACCCA	Association of California Community College Administrators
ACSA	Association of California School Administrators
AFT	American Federation of Teachers
AGENCY	State and Consumer Services Agency
ART	Association of Retired Teachers
BOE	Board of Equalization
BOG	Board of Governors, California Community Colleges
Cal-Tax	California Taxpayers Association
CASBO	California Association of School Business Officers
CCA	Community College Association
CCAE	California Council for Adult Education
CFA	California Faculty Association
CFT	California Federation of Teachers
CRTA	California Retired Teachers Association
CSBA	California School Boards Association
CSEA	California School Employees Association
CSL	California Senior Legislature
CSU	California State University
CTA	California Teachers Association
DOE	Department of Education
DOF	Department of Finance
DGS	Department of General Services
DPA	Department of Personnel Administration
FACCC	Faculty Association of California Community Colleges
FTB	Franchise Tax Board
LAUSD	Los Angeles Unified School District
PARS	Public Agency Retirement System
PERS	Public Employees Retirement System
RPEA	Retired Public Employees Association
SACRS	State Association of County Retirement Systems
SBMA	Supplemental Benefit Maintenance Account
SDCOE	San Diego County Office of Education
SEIU	Service Employees International Union
SLC	State Lands Commission
SSC	School Services of California
SSDA	Small School Districts' Association
STRS	State Teachers' Retirement System
TFD	Teachers for Fair Disability
TRB	Teachers' Retirement Board
TRF	Teachers' Retirement Fund
TRL	Teachers' Retirement Law
USERRA	Uniformed Services Employment and Reemployment Rights Act
UTLA	United Teachers Los Angeles

STANDING COMMITTEES OF THE ASSEMBLY/SENATE

Assembly PER&SS	Assembly Public Employees Retirement and Social Security
Senate PE&R	Senate Public Employment and Retirement